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ABSTRACT

Knowledge of major economic forces shaping the future of rural America provides insights about the likely importance and effectiveness of various broad program alternatives as components of a rural development policy. The rural economic base was transformed during the 1960s and 1970s from a primary dependence on natural resource activities, including agriculture, to a dependence on manufacturing and services. This dependence has been the principal cause of economic stress in rural America in the 1980s. In conjunction with higher unemployment in rural goods-producing industries, nonmetropolitan population growth has receded to a level below that of metropolitan areas. Given the nature of rural economic stress, public policy discussion about rural development needs to be conditioned by three considerations. Because the rural economy is now an integral part of the national/global economy, traditional sector-specific/community-specific policies are less able to deal with problems. Since rural areas are diverse, careful targeting of limited rural economic development funds is essential. And, because the burden of economic adjustments falls on displaced workers, human resource policies are critical to successful amelioration of current rural economic stress. Social scientists have the difficult task of trying to develop effective rural development policies based on efficiency and equity. (NEC)

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NEW DIRECTIONS IN RURAL POLICY

BY

KENNETH L. DEAVERS*

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INTRODUCTION

According to Webster, policy is "a definite course or method of action selected from among alternatives and in light of given conditions to guide and determine present and future decisions." The choice of a rural development policy relevant for the mid-1980's requires that we first understand the "given conditions." That is, what is the economic and social setting in rural America that conditions future expectations about development? In the first part of this paper I will describe post-1980 changes occurring in rural areas, focusing particularly on job creation, and population change and migration. I have chosen to focus on these issues because there are national data sets that allow us to monitor them on a relatively current basis, and because many other aspects of development, e.g., community vitality and viability, can be expected to be associated with observed changes in these factors.

Knowledge of the major economic forces shaping the future of rural America provides insights about the likely importance and effectiveness of various broad program alternatives as components of a rural development

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policy. Although some sense of relative program priorities is possible, the specification of "a policy" for any individual rural area is not, largely because the explanatory power of our current regional science is not micro-cosmic. Thus, in part two of this paper I discuss three broad types of policies that are important in mitigating the kinds of rural economic problems identified in part one.

Many factors contribute to the eventual selection of a national rural development policy, not just current and likely future economic conditions. An understanding of the contending political forces influencing the outcome of the public policy debate about rural development policy may make us, as social scientists, more effective. In part three of the paper I examine the rationale for public intervention in the course of spatial (rural) development. Fundamentally, it is differences in rates of return and levels of activity and growth that are of concern. While mobility of resources is an important way of redressing such differences, the movement of individuals from areas of low returns to areas of high returns is not without substantial economic and psychic costs. These costs must be balanced against the costs of intervention, but we are currently unable to do this in any wholly satisfactory way.

Rural Conditions-1979-85

During the 1960's and 1970's, the rural economic base was transformed from a primary dependence on natural resource activities, including agriculture, to a dependence on manufacturing and services. This shift was so great that even many farm operators spend a major part of their time working off the farm, and farm families as a group now receive nearly 50

percent of their cash income from nonfarm sources. Relatively greater dependence on goods production--the kinds of rural manufacturing industries and jobs within these industries--and sharp declines in natural resource-based industries and agriculture, have been the principal causes of economic stress in rural America in the 1980's. Indicators of rural economic stress include:

- Metro employment grew three times as fast as nonmetro employment during 1979-85 (10 vs. 3 percent), a reversal of the 1970's when nonmetro employment grew more rapidly. Nonmetro population growth also lagged behind metro growth in the 1980's, and net migration favored metro areas. Both of these conditions are also a reversal of the 1970's.

- For 1985, the nonmetro unemployment rate averaged above 9 percent, more than 2 percentage points higher than the metro rate. The nonmetro unemployment rate has fallen much more slowly than the metro rate during the current economic expansion.

- The nonmetro poverty rate was 18.3 percent in 1985 compared with 12.7 percent for metro areas. While the metro rate has fallen during the recovery from the recession of the early 1980's, the nonmetro rate has been virtually unchanged.

By 1984, more than 22 percent of all u.s. wage and salary manufacturing employment was in nonmetro America; roughly 40 percent of our

rural citizens live in counties primarily dependent on manufacturing (map 1). The manufacturing sector has experienced significant job losses as part of the current structural realignment. In many nonmetro areas, wage gains in manufacturing have outstripped productivity gains, leaving the industries vulnerable to foreign competition. A rise in the value of the dollar exacerbated our competitive problems. Problems in manufacturing include:

- Overall there was a 6-percent decline in U.S. manufacturing employment between 1979 and 1985. But white collar manufacturing employment grew by 10 percent, while blue collar manufacturing employment declined by 15 percent.

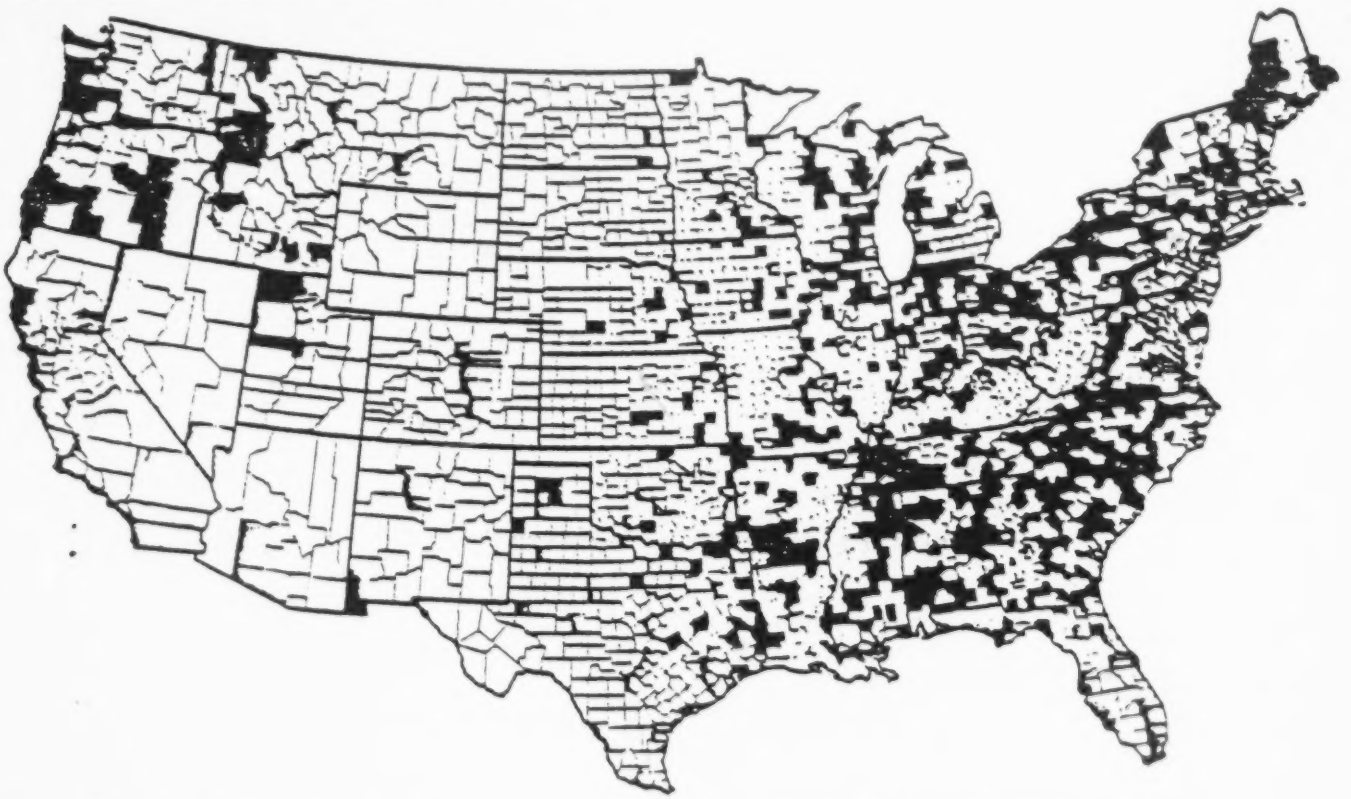
- The decline in blue collar manufacturing jobs is particularly serious for nonmetro areas because blue collar jobs are 75 percent of nonmetro manufacturing employment compared to 59 percent for metro areas.

- Total employment in nonmetro counties dependent on manufacturing grew by less than 1 percent between 1979-85.

Agriculture and mining counties (maps 2 and 3) also have been under severe stress in the 1980's—farming counties because of the depressed economic conditions and accompanying financial problems and equity loss in the sector; mining counties because of the failure of OPEC production controls and pricing strategies, and general weakness in prices and markets

MAP 1

Manufacturing-Dependent Counties



Manufacturing-Dependent Counties
Manufacturing contributed 30 percent or more of total labor and proprietor income in 1979.

Standard Metropolitan Statistical Area

MAP 2

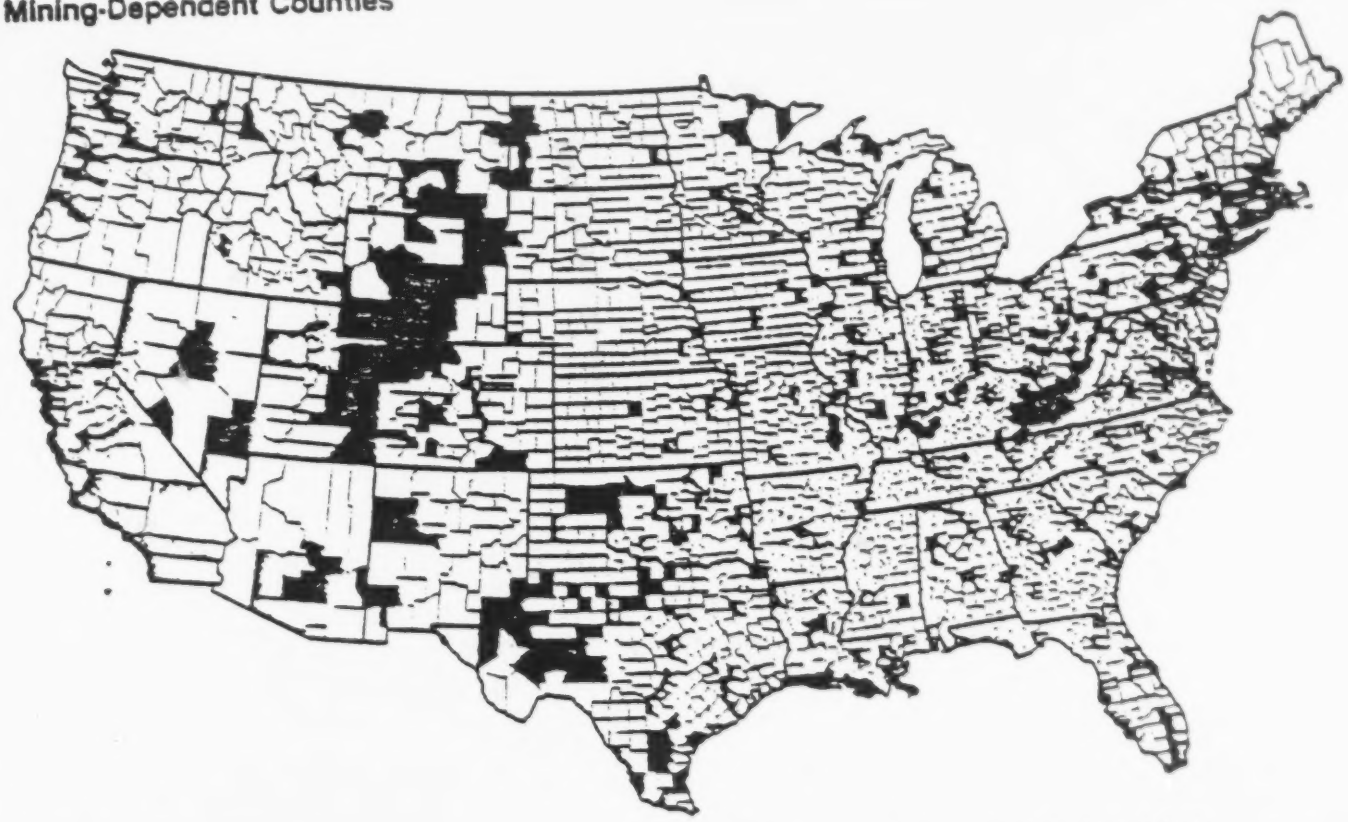
Farming-Dependent Counties

Farming Dependent Counties
Farming contributed a weighted annual average of 20 percent or more to total labor and proprietor income over the five-year period from 1975 to 1979.

Standard Metropolitan Statistical Area

MAP 3

Mining-Dependent Counties



Standard Metropolitan Statistical Area

Mining-Dependent Counties
Mining income 20 percent or more of total labor and proprietor income in 1979.

for other minerals. As a result, mining- and agriculture-dependent counties experienced declines in total employment during 1979-85 of 6.5 percent and 0.3 percent, respectively.

These statistics reflect the community-wide impacts of economic restructuring in agriculture, mining, and manufacturing. Service-producing employment has been growing everywhere, but much more slowly in nonmetro counties dependent on these industries than in others. When counties dependent on agriculture, mining, and manufacturing are left out, nonmetro America's performance in the 1980's looks much better--employment growth of 8 percent from 1979-85--nearly as rapid as for our metro counties.

The data in Table 1 show how widespread are the problems affecting the agriculture, mining, and manufacturing sectors. Over one-half of mining- and manufacturing-dependent counties have average annual unemployment rates above 9 percent. And for the persistent poverty counties whose 1979 median family income level was only 60 percent of the U.S. level, more than 80 percent now have these high levels of unemployment. Equally important, the data in Table 1 appear to reflect a fundamental shift in the competitive position of these rural economies since 1979, which was the peak of the previous economic expansion. The average annual nonmetro unemployment rate is now 8.4 percent compared to 5.7 percent in 1979.

In addition to the adjustments already discussed, the nonmetro economy is sharing with the rest of America in the structural transition to greater dependence on service employment. Most job growth in nonmetro areas since the late 1960's has been in the service sector, and service industries now employ more nonmetro workers than goods-producing industries.

Table 1. Number of Counties with annual average unemployment rates over 9.0 percent, 1979 and 1985

County types	1979	1985	Total number of counties by type
All Metro	33	154	654
All Nonmetro	307	1063	2443
Ag. Dependent	53	202	702
Mfg. Dependent	88	377	678
Mining Dependent	31	119	200
Poverty	69	195	242
Retirement	82	224	515

Source: Bureau of Labor Statistics.

That trend has been accelerating. Since 1969, 83 percent of all new non-farm wage and salary jobs created in nonmetro areas were in services; since 1979, more jobs were created in services than were lost in manufacturing and resource-based industries. But service-sector job growth has been slower in nonmetro areas than in metro, especially in those components that serve national and regional markets rather than local consumers. Thus, reliance on services to generate new jobs may not be realistic in nonmetro areas if goods-producing sectors in those counties continue to decline or stagnate.

In conjunction with higher unemployment in goods-producing industries in the rural economy, nonmetro population growth has receded to a level below that of metro areas. Nonmetropolitan growth began to slow by the end of the 1970's, and nonmetropolitan areas now are growing at a lower rate than metro. Data indicate a decline in the annualized growth rate for nonmetro areas from 13.5 per 1,000 during the 1970's to 7.4 per 1,000 in 1980-85.

In contrast, the metro rate has increased slightly from a little more than 10 per 1,000 in the 1970's to 11.5 per 1,000 during 1980-85. Although nonmetro growth slackened during 1980-84, there was no net outmigration until 1982-83; nonmetropolitan growth was about equal to natural increase. However, 1984 data does show a nonmetro net migration loss to metro areas of about 350,000 persons (Table 2). Accordingly, reduced nonmetro population growth of the 1980's may signal a return to the generalized decline of previous decades. Almost half of all nonmetro counties (1,160) lost population during 1983-85, compared with 460 that lost population in

Table 2.-Metropolitan-Nonmetropolitan Migration in the United States, 1980-84

Migration Stream	1983-84 (000)	1982-83 (000)	1981-82 (000)	1980-81 (000)
Metro-to-nonmetro	2,258	2,066	2,366	2,350
Nonmetro-to-metro	2,609	2,088	2,217	2,156
Net to nonmetro	-351	-22	149	194

Note: Metropolitan areas as defined in 1970.
Source: Current Population Survey Bureau of the Census
Prepared by Economic Research Service, USDA

the 1970's. It was a similar situation of general rural economic stagnation and population decline that lead to major public policy initiatives some 25 years ago.

Three Themes For Rural Policy

Given the nature of economic stress in rural America, public policy discussions about rural development need to be conditioned by three considerations:

First, the rural economy is now such an integral part of the national and global economy that traditional sector-specific and community-specific policies are less able to deal with the problems. We cannot build rural prosperity by propping up certain sectors or firms in an effort to protect them from a highly competitive world economy. Such policies are costly—in the long-run they stifle creativity and new enterprise—and they reduce real wealth. Instead, highest priority needs to be given to macro policies to achieve the highest possible rates of overall economic growth consistent with reasonable price stability. No set of "development-oriented policies" will be able to overcome inadequate growth of aggregate demand in the U.S. and world-wide.

Education, communications, and transportation policies are also key to rural development. And income maintenance programs will determine the well-being of many rural poor. Rural interests are not likely to be paramount in shaping these policies; but care is needed to assure that rural areas are not inadvertently disadvantaged by such policies.

Second, rural areas are diverse; economic stress is not the experience for all rural counties in the 1980's. Adjustments are concentrated in the agriculture, mining, and manufacturing-dependent counties--plus in the persistent poverty counties, which have always been both outside the mainstream of economic development and largely unaffected by previous programs of regional development. Thus, careful targeting of the limited funds available for rural economic development is essential.

Furthermore, growth patterns in the U.S. economy generally do not appear likely to favor large increases in the share of goods-producing employment. Thus, there is little reason to believe that the expansion or location of manufacturing enterprises in rural areas will play a major role in solving existing economic stress. This raises serious questions about the appropriateness of national policies that finance traditional kinds of goods-producing, industry-serving infrastructure and promote programs of local "smoke-stack chasing."

There is some evidence that the recent decline in the dollar is stimulating exports of manufactured goods. However, the long-term effects on the rural economy are unclear. On the one hand, rural manufacturing, particularly in the South, tends to be in nondurable goods such as textiles and apparel. The primary competition for these industries comes not from Japan or Western Europe but from Taiwan, Korea and other countries whose currencies are tied to the value of the dollar. Thus, rural employment in these industries may be stimulated very little by the decline in the dollar. Agriculture faces a similar situation with respect to grain exports. The dollar has depreciated little against the currencies of many importers and has appreciated against currencies of major export competitors.

Yet, to the extent that improved demand for the output of the more urban-based manufacturers stimulates plant investment, some parts of the rural economy may gain if manufacturers again shift production out of urban settings into rural areas as they did during the 1960's and 1970's. But many factors that led to rural manufacturing employment gains in that period may have changed.

Programs need to reflect realistic expectations about the potential futures of individual rural areas--their place in economic space, and the degree of urbanization of their region. These programs need to accommodate futures of stability or decline, not just growth. The role of State government has been substantially enhanced by the difficulty of addressing this diversity of rural conditions with national policies and programs.

Third, most of the burden of the economic adjustments occurring in rural America falls on the human resources--displaced industrial workers, displaced farmers and other proprietors, and members of their households. Problems of job loss are exacerbated by difficulties individual workers face in shifting from production jobs to white collar jobs in the service sector. Skills gained in farming, mining and blue-collar manufacturing employment frequently are of little direct use in the services sector. Also, pay scales are substantially lower in many parts of the services sector. Those who succeed in making the occupational transition may have to accept changes in lifestyle as well as changes in job tasks. Some may have to move their residences to find new jobs.

Rural workers, particularly in agriculture, are more likely to have been self-employed--often in an enterprise spanning several

generations--which may also make occupational shifts more difficult. Thus, human resource policies are critical to successful amelioration of current rural economic stress.

Political Economy of Rural Economic Development Policy

The formulation of public policy is a complex process of negotiation among many and diverse groups, each of whom have some special interest viewpoint to serve. Government programs resulting from this process often achieve broad societal goals or help to mitigate the consequences of social problems. Public works are planned and constructed, research leading to important scientific and technical advances is conducted, and individuals and communities are assisted in recovery from natural and man-made disaster. As these examples illustrate, effective policies are most likely when they do not seriously violate some key sets of special interests, that is, "when they do not disturb established power, income, or status hierarchies."[1]

Rural development policy involves public intervention to ameliorate differentials in levels of activity, growth, and rates of return between rural and urban "regions" (and to a lesser extent among rural places). However, these differentials are to some extent the result of current power, income, and status. Thus, effective rural development policies are those likely to alter the status quo, pitting one set of special interests against another. In fact, these policies are meant to shift the outcome of national development to increase the share captured by rural people and

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[1] Edelman, Murray. 1977, Political Language: Words That Succeed and Policies That Fail, New York: Academic Press.

rural communities. It is this characteristic of such policies that makes them so difficult to achieve political concensus about.

One way to understand the problem is in terms of the possible motivations for national rural development policy interventions. There are only two: efficiency and equity. The efficiency rationale typically involves asserting some form of market failure which results in under performance of the rural economy. The political attractiveness of the efficiency rationale is that policies to improve efficiency imply that a higher level of national output can be achieved with the same level of inputs. Rural development policies that overcome market failures can create more rural jobs, but they are not jobs lost to urban America.

Another view attributes regional differences (especially rural poverty) to low factor productivity resulting from environmental or infrastructure deficiencies in the region. An obvious solution to this situation would be to allow (encourage) interregional migration. But, investments in a region's infrastructure might increase rates of return more.[2] If so, rural infrastructure investment policies are motivated primarily by efficiency objectives. In this theoretical vein, infrastructure policies should be no more or less attractive than policies to deal with market failure resulting from imperfect information or discontinuities of investment due to scale.

The equity rationale, of course, is that whether or not the observed spatial distribution of development is efficient, the resulting differentials in incomes, jobs, and well-being are unacceptable. Even if correcting these distributional inequities involves real costs, e.g., a

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[2]Leven, Charles. 1985, "Regional Development Analysis and Policy," Journal Regional Science, Vol. 25, No. 4: 574-579.

reduction in national output, rural development policy interventions are justified. However politically salient equity may be in some realms of American social philosophy; e.g., one man, one vote, it has never had much power as a rationale for regional development policy. As a result, efforts to target public rural development spending to "needy" areas or individuals have been sporadic and largely unsuccessful.

Since equity arguments have not been a politically viable rationale for rural development policy, most of the programs developed have been justified as a response to market failures or inadequate infrastructure. But the analytical foundation for asserting widespread failure of information or capital markets, or for preferring infrastructure investment to migration, is virtually nonexistent. Under these conditions it is not suprising that there is considerable skepticism among economists and politicians alike about the effectiveness of rural development policy. In fact, given the confusion about objectives, it would not be surprising if the implementation of past policies had been supportive of rather than contrary to established power, income, and status hierarchies. It would be surprising if future policy were different--and yet, that is what we as social scientists are trying to achieve. We have a very difficult task ahead.